November 1, 2002

VIA HAND DELIVERY

Jamie Katz, Chief
Division of Public Charities
Office of the Attorney General
One Ashburton Place
Boston, MA 02108

Re: Notice of Transfer Under M.G.L. Chapter 180, Section 8A(d)

Dear Mr. Katz:

As we have discussed, this firm represents The Nashoba Community Hospital Corporation ("Nashoba") and its related entities, Nashoba Management Services, Inc. ("NMS") and James Brook Properties, Inc. ("James Brook") in connection with the proposed transfer of substantially all of the assets of Nashoba to Essent Healthcare – Ayer, Inc., a Tennessee for profit corporation. Please consider this our notice pursuant to the provisions of Section 8A(d) of Chapter 180 of the Massachusetts General Laws ("Section 8A(d)").

Nashoba and NMS are each a tax-exempt, Massachusetts charitable corporation. The sole corporate member of Nashoba is CareGroup, Inc. ("CareGroup"), a tax-exempt, Massachusetts charitable corporation. NMS has two classes of members. The Class A member is Nashoba and the Class B[1] member is CareGroup. James Brook is a non-profit Massachusetts corporation, which is not a public charity, whose sole corporate member is Nashoba.[2]

We appreciate the opportunity to have briefed your office on this proposed transaction on October 3, 2002. This Notice supplements the material provided to your office on that date and addresses the points covered in the Attorney General's Guidelines for Transfers of Nonprofit Acute Care Hospitals and HMO's as well as the requirements of Section 8A(d).

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[1] CareGroup will be withdrawing as Class B member of NMS shortly, leaving Nashoba as sole member of NMS.
[2] Nashoba is one of two corporate members of Deaconess Nashoba PHO, Inc., a non-profit Massachusetts charitable corporation (the "PHO"). Nashoba IPA, Inc. is the other corporate member.

I. Transaction Summary

A summary of the transaction is attached hereto as **Exhibit A.** The sale of the Nashoba Assets will constitute the sale of "all or substantially all of its property and assets" for the purposes of Section 8A(c) of Chapter 180 and a "substantial amount of its assets" for the purposes of Section 8A(d).

II. The Boards' Preliminary Deliberation Process in Deciding to Pursue an Affiliation

The decision to proceed with this transaction has been considered in great detail by the Boards of Nashoba and CareGroup. Due care was followed in making the decision to sell, in selecting the buyer (a for profit entity rather than a not-for-profit entity) and in negotiating the transaction. Conflict of interest was avoided with respect to Board members, key executives, counsel and retained experts. Except as disclosed herein, no such individuals have any financial interest in the buyer or are doing business or planning to do business with the buyer.

The Board of Trustees of Nashoba began a strategic planning process in November of 2000. At that time, the Board identified four key strategic initiatives:

1) Recruitment of Primary Care and Medical Specialists
2) Image and Awareness
3) Facilities Upgrade
4) Turnaround Financial Plan.

Members of the Board, senior management and the Medical Staff focused on the implementation of a strategic plan through early 2002.

In November 2001, CareGroup and Nashoba began considering alternatives to the existing Nashoba - CareGroup relationship. CareGroup and Nashoba identified the need for a significant capital investment into Nashoba, and acknowledged that the current Nashoba ongoing operations were unprofitable. In addition, in a very competitive environment, Nashoba suffered from a lack of leverage in negotiating managed care contracts and difficulty in medical staff recruitment. As a part of this analysis, in July 2002, CareGroup and Nashoba engaged Superior Consulting to complete a "situation analysis" of Nashoba. A copy of the Engagement Letter is attached hereto as **Exhibit B**. Superior Consulting concluded that Nashoba was well managed but required a substantial capital infusion, probably in excess of $15 million to $18 million. A copy of the Superior Consulting report is attached hereto as **Exhibit C**.

CareGroup and Nashoba acknowledged that CareGroup's financial challenges limited its ability to meet the capital needs of Nashoba and as a result CareGroup and Nashoba evaluated a range of strategic alternatives to assist in Nashoba's overall turnaround effort. As a part of this evaluation, in January 2002, CareGroup and Nashoba engaged Salomon Smith Barney ("SSB") to provide an indicative range of values for individual hospitals. SSB provided an estimated range of values for Nashoba of $9 to $12 million. A copy of the SSB analysis is attached hereto as **Exhibit D**. Based on this information, a decision was made by CareGroup and Nashoba to seek a capital partner for Nashoba and in January of 2002, SSB was engaged to seek such a partner. A Copy of the Engagement Letter with SSB is attached hereto as **Exhibit E**. In January of 2002, the Chairman of the Board appointed a Work Group Committee comprised of members of the Nashoba Board and the Medical Staff. The Work Group Committee began working with SSB to create a plan identifying the critical elements of a successful affiliation.

III. The Process for Partner Identification

SSB identified and contacted 30 potential buyers in addition to holding discussions with CareGroup affiliates, and in February and March, SSB mailed a bid letter (the "Bid Letter") to potential buyers inviting them to management presentations and site tours. The Bid Letter requested potential buyers to submit letters of intent based on these diligence sessions. A sample Bid Letter is attached hereto as **Exhibit F**. Five of the potential bidders executed Confidentiality Agreements, four of whom undertook on-site due diligence. A summary of SSB's contacts with these potential buyers is attached hereto as **Exhibit G**. In late spring and early summer 2002, Nashoba received three written indications of interest. Of the three, two were non-profit affiliates of CareGroup (Beth Israel Deaconess Medical Center, Inc. ("BIDMC") and Mount Auburn Hospital) and one was a for profit entity (Essent Healthcare, Inc.). Copies of the communications from each of BIDMC, Mount Auburn and Essent are attached hereto as **Exhibits H, I,** and **J**.

Throughout the process, Nashoba's Board Chairman and management kept the Hospital Trustees, members of the Auxiliary, Medical Staff and employees updated as to their activities through letters and memorandums. Copies of these communications are attached hereto as **Exhibit K**.

IV. The Selection Process

Upon the receipt of all proposals in May 2002, SSB compiled a comparative matrix to aid Nashoba in its evaluation of the various proposals. This matrix is attached hereto as **Exhibit L.** In order to most effectively evaluate the various proposals, an

Evaluation Committee appointed by the Chairman of the Board and comprised of members of Board and the Medical Staff began meeting in early June to evaluate all proposals, and make a recommendation to the Executive Committee of the Board of Trustees. Proposals were evaluated based on criteria developed by the Evaluation Committee.

Criteria Considered

The paramount concern to the Evaluation Committee members was ensuring the services currently being provided by Nashoba would continue to be available in the Ayer community. The Evaluation Committee recognized that without a considerable capital infusion the future of Nashoba was gravely jeopardized. Accordingly, with respect to the consideration to be paid, the Evaluation Committee carefully reviewed (i) the amount of consideration and/or capital commitments, (ii) the extent to which commitments were contingent, (iii) the ability to enforce the payment of such commitments and (iv) the level of comfort that there would be an ultimate source of capital to meet future commitments.

By these criteria, the Evaluation Committee recognized that the Essent proposal was superior, as outlined below:

	Essent	**BIDMC**	**Mt. Auburn**
Consideration	$11.0 million	$6.5 million	$4.8 million
Capital Commitments	$16.0 million or replacement facility	$5.5 million	$9.0 million
Remedies Relating to Capital Commitments	Commitment to entirely renovate or replace existing facility Commitment that if $16 million is not paid by 12/31/08, shortfall paid directly to Nashoba Foundation	None	None
Contingencies Relating to Capital Commitments	None	Subject to (i) development of a joint clinical and strategic plan, (ii) continued at risk contracting, (iii) continued affiliation which CareGroup	Subject to (i) CareGroup Board supporting recommendation and (ii) initiation of a joint master facility plan
Capital Access of Buyer	Funded by private equity firm Thoma Cressey Equity Partners which has committed up to $50 million to fund the growth of Essent. Independently, Essent has limited track record.	Limited debt capacity and limited market access	Limited liquidity, limited debt capacity and limited market access

The Evaluation Committee also considered other material provisions such as physician recruitment, clinical development, community perception and value of retaining a not-for-profit identity. While the Evaluation Committee felt as though an equal proposal from a not-for-profit partner would be superior and discussed at length how it might maximize the proposals put forth by BIDMC and Mt. Auburn, it ultimately concluded that only the Essent proposal would provide the capital necessary to ensure Nashoba's continued operation. In addition, the Evaluation Committee was impressed by the Essent proposal's guarantee to continue providing existing inpatient and outpatient services in Nashoba's service area (with the provided remedy that Nashoba could re-purchase the hospital).

CareGroup and Nashoba also engaged Health Capital Consultants, LLC, under the direction of Robert J. Cimasi, to conduct an appraisal of Nashoba. That appraisal is attached hereto as **Exhibit M**.

On July 9, 2002, the Executive Committee accepted the recommendation of the Evaluation Committee to pursue a due diligence process with Essent. A Negotiation Committee was then appointed by the Chairman of the Board to negotiate the documents with Essent. This Committee was comprised of members of the Boards, the Medical Staff, senior management and CareGroup representatives, and was advised by SSB and counsel to Nashoba.

Concerns Regarding Essent Satisfied

Nashoba management and the Negotiating Committee felt it necessary to conduct diligence on Essent in order to assess it's viability to provide capital in the future and to assuage their concerns that it might impose unfavorable operating procedures on the hospital. To gather additional information regarding the buyer, Nashoba engaged a consultant to conduct a due diligence review of Essent. The consultant visited other hospitals acquired by Essent and interviewed members of the management team of these institutions. The consultant's report is attached hereto as **Exhibit N**. Members of Nashoba's Negotiating Committee also conducted visits and interviews at these hospitals. The Negotiation Committee received assurances from hospitals acquired by Essent that Essent had met its obligations and commitments and that ultimately operational changes were, on the whole, positive.

In addition, the Negotiating Committee was concerned about selling to a for profit entity and the image which that might project. Accordingly, representatives of Nashoba reached out to the Hospital community, the Nashoba Valley community, and Nashoba's elected representatives to solicit public opinion. Nashoba kept the public informed about the process through newspaper articles, public speaking engagements and community outreach. Nashoba management and Board representatives met regularly with state senators and representatives. Employee forums were held frequently. A compilation of community outreach initiatives is attached hereto as **Exhibit O**. In the end, Nashoba believes that the community is more concerned about guaranteeing continued services in the area than whether the operator is a for profit entity.

Further, the Negotiating Committee was advised by its financial and legal advisors that the conversion to a for profit entity would require scrutiny and approval by the Attorney General. After having researched the Attorney General process, both Nashoba's financial and legal advisors agreed that such a process could feasibly be accomplished in a timely manner. The Negotiating Committee also believed that the Attorney General's focus on the charitable mission and the needs of the Nashoba Valley community during its review and approval process would be beneficial to Nashoba.

<u>Conclusion</u>

After reviewing the proposals at length, discussing alternatives and improvements with each of the bidders, the Negotiating Committee unanimously agreed, with the accord of its financial and legal advisors, that the Essent proposal was the best proposal from a financial and operating point of view for all parties involved.

V. Personal Financial Benefit

No officer, director, employee, doctor, medical group or other entity affiliated with Nashoba or any family member of any such person will receive any financial benefit from the affiliation with Essent, as of the date of this letter. No officer, trustee or director of Nashoba, nor any family member of such person, has a personal interest in a company, firm, partnership or business entity currently doing business with Essent or its affiliates.

VI. Final Board Approval

On September 23, 2002, the Negotiating Committee recommended approval of the Transaction to the Nashoba Executive Committee, who in turn recommended such approval to the Board of Directors. On September 24, 2002 the Nashoba Board voted to authorize the execution of the necessary documents to effectuate the Transaction. On October 18, 2002, the Board of Directors of NMS approved the Transaction by unanimous written consent. On October 23, 2002, the Board of Directors of James Brook approved the Transaction by unanimous written consent. On October 23, 2002, the CareGroup Board of Directors ratified and approved this action. The minutes of the Nashoba Board meeting and the NMS resolution are attached hereto as **Exhibits P.** The Resolution adopted at the CareGroup Board Meeting is attached hereto as **Exhibit Q**.

After the deliberations described herein, each Board concluded that selling the assets of Nashoba, NMS and James Brook to Essent was the most viable option for the continued fulfillment of Nashoba' charitable mission and will ensure the continued care of the residents of the Nashoba Valley.

On October 31, 2002, Nashoba and Essent executed the Asset Purchase Agreement, attached hereto as **Exhibit R**.

On October 17, 2002, this office provided you with a list of the members of Nashoba's Executive Committee and the members of the Negotiating Committee. A list of the members of the Work Group Committee and the Evaluation Committee is attached hereto as **Exhibit S.**

Please feel free to call me with any questions you may have. Thank you for your assistance.

Best regards,

Robert J. Griffin Jennifer Gallop

RJG/JG/ma
Enclosures

cc: Deaconess Nashoba Hospital
Nashoba Management Services, Inc.
CareGroup, Inc.
Solomon Smith Barney
Essent Healthcare, Inc.
Essent Healthcare-Ayer, Inc.
Johanna Soris, Esq.